ANNUAL REPORT 1970

KENTING

OFFICERS

D. N. KENDALL
Chairman of the Board of Directors

J. W. STRATH
President and General Manager

G. D. ROSS
Vice-President, Finance

A. E. PALLISTER
Vice-President, Science & Development

A. VANDEN BRINK
Vice-President, Drilling

J. E. MACARTNEY
Secretary-Treasurer

J. F. MOORE
Assistant Secretary

G. W. OWEN
Assistant Secretary

KENTING

HEAD OFFICE KENTING LIMITED

700 - 6 Avenue S.W.,
Calgary 1, Alberta
Canada
403—263-2980
Telex 038-24542

DIVISIONAL OFFICES

DRILLING

BIG INDIAN DRILLING DIVISION
415 Monument Place S.E., Calgary, Alberta
Telephone 272-8811

KENTING OILWELL DRILLING DIVISION
700 - 6th Avenue S.W., Calgary, Alberta
Telephone 263-2980

PETROLIA OILWELL DRILLING DIVISION
700 - 6th Avenue S.W., Calgary, Alberta
Telephone 263-2980

GEOPHYSICAL

KENTING EARTH SCIENCES (Western) DIVISION
524 - 11th Avenue S.W., Calgary, Alberta
Teléphone 263-1701

KENTING EARTH SCIENCES (Eastern) DIVISION
67 Richmond Street West, Toronto, Ontario
Telephone 360-1500

KENQUEST EXPLORATION DIVISION
524 - 11th Avenue S.W., Calgary, Alberta
Telephone 263-1701

KENTING PETROLEUM GEOPHYSICS DIVISION
6004 Centre Street S., Calgary, Alberta
Telephone 252-6696

AIR TRANSPORTATION AND SURVEY

KENTING AVIATION DIVISION
P.O. Box 6024,
Toronto A.M.F., Ontario
Telephone 677-6721

KLONDIKE HELICOPTER DIVISION
Hangar No. 1, McCall Airport
Calgary, Alberta
Telephone 277-8526

OILFIELD CONSTRUCTION AND PIPELINING

KENTING OILFIELD SERVICES DIVISION
510 - 5th Street S.W., Calgary, Alberta
Telephone 263-4970

OPERATIONS OFFICES

Toronto; Calgary; Edmonton;
Whitehorse, Y.T.; Fort Smith, N.W.T.;
Hay River, N.W.T.; Vancouver.

DIRECTORS

J. C. ANDERSON
Vice-President and General Manager
Allied Equipment Ltd. — Calgary

S. W. ARMSTRONG
Secretary-Treasurer
Canadian American Royalties Ltd. — Calgary

THE HONOURABLE SIMON FRASER
Hambros Bank Limited — London, England

D. N. KENDALL
Chairman of The Board
Kenting Limited — Toronto

D. A. McINTOSH
Partner
Fraser & Beatty — Toronto

J. H. MOWBRAY JONES
Director
Bank of Montreal — Montreal

G. D. ROSS
Vice-President, Finance
Kenting Limited — Calgary

P. R. SANDWELL
President
Sandwell and Company Limited — Vancouver

J. W. STRATH
President and General Manager
Kenting Limited — Calgary

A. VANDEN BRINK
President
Petrolia Oilwell Drilling Ltd. — Calgary

R. A. WISENER
Partner
Wisener and Partners Company Limited — Toronto

TRANSFER AGENTS

Royal Trust Co.

AUDITORS

Price Waterhouse & Co.

SOLICITORS

Fraser & Beatty – Toronto
Howard Moore Dixon Mackie & Forsyth – Calgary

STOCK EXCHANGE LISTING

Toronto Stock Exchange

TO THE SHAREHOLDERS

Financial

The gross revenue of $20,820,000 was approximately the same as in 1969 when it was $21,420,000. The defining of "revenue" for Kenting Limited continues to be a difficult problem. Possibly, the over-reliance on revenue could be misleading. Contracts vary to such a degree that what is classified as revenue on one client's contract could be classified as a third party charge on another client's contract. In a given year, it is quite possible for revenue to vary by as much as one million to two million dollars, depending upon the mix of the various types of contracts.

After deduction of preferred dividend requirements of $136,000 in 1970 and $146,000 in 1969, the earnings per share based upon a weighted average were as follows:

	1970	1969
Cash Flow	$ 3.94	$ 4.83
Income (Loss) before extraordinary items	(1.23)	.23
Net Income (Loss) for year	(2.14)	1.54
Shares outstanding (weighted average)	389,921	323,044

The cash flow was $1,670,000 in 1970 as compared to $1,707,000 in 1969. The actual taxes payable were $29,000 in 1969 while a recovery of $40,000 was made in 1970.

The loss before extraordinary items was $341,000 in 1970 as compared to a profit of $221,000 in 1969. The net loss is largely accounted for by depreciation of the offshore rig and a change in our depreciation rates (see Note 4 to the financial statements).

During the year the Company experienced the adverse effects of a reduction in spending by the petroleum and mining industries, and the ensuing price competition which can materially affect the profits. Fortunately, the Company was able to soften this downward spiral due to increasing divisional co-operation and increasing volume of work in specialized projects. This co-operation has resulted in inter-divisional revenue having increased to approximately $2 million per year. The generated projects and special work in northern Canada now account for approximately $8 million of Kenting sales. Although the risks are somewhat greater, Kenting has found the profit potential to be substantially higher in comparison to competing against the normal competition in the southern regions. The Horn River Project, completed in March 1971, is a further example of this specialization which proved successful.

The repayment of $2,420,000 of current term debt during 1970 put a great strain on the Company and the $1,440,000 current portion of term debt continues to create working capital problems. The payment of dividends on the preferred shares (see Note 11) has been suspended because of the shortage of working capital. The directors recognize that the working capital and the amount and repayment terms of the term debt in relation to the Company's equity is somewhat out of balance. It is the intention of the Company to remedy these problems as soon as possible after the disposition of the offshore rig.

▲Klondike helicopter on mineral survey in the Yukon.

◀Kenting deep drilling rig conditioned for winter operation.

Kenting Offshore

The offshore rig, after having completed all necessary repairs, was moored in the harbour at Tema, Ghana. The Company is involved in negotiations for its sale or charter to several interested parties.

The interests of our shareholders and certain statutory requirements dictated the issuance of financial statements at this time. However, it is presently impossible to determine the ultimate effect, on the 1970 financial statements, that the disposition of the Offshore Division will have.

In light of the present situation, a contract cancellation fee has been included in revenue; in accordance with our accounting policy, normal depreciation has been recorded; and a provision has been made of $360,000 for estimated monthly carrying and maintenance costs if the rig stands idle during the ensuing year while the above negotiations take place. (See Note 5 to the financial statements).

Accepted auditing standards have required the Company's auditors, at this time, to qualify their opinion because these statements could be materially adjusted upon the disposition of the Offshore Division.

Kenting Organization

The year 1970 saw a continuation of the consolidation and reorganization of the Company begun in 1969. Positive progress was made in the face of the severe pressures created by the offshore rig.

Organizational changes included the following:

- The Head Office was centralized in Calgary and Board meetings are now being held in Calgary.
- The Management Committee, formed in 1970, implemented additional financial and operating controls. Capital expenditures and contracts are closely analyzed; operations are intensively monitored with management information refined down to a "unit of production" basis.
- Early in 1971 the four geophysical Divisions (Kenting Earth Sciences (Eastern), Kenting Earth Sciences (Western), KenQuest Exploration and Kenting Petroleum Geophysics) were reorganized and unified under one group manager to closely integrate these related activities. Kenting Earth Sciences (Eastern) was restructured and the offices moved to central Toronto to be nearer the mining industry. The Huntec Instrument Division was sold in 1970; Kenting retained a one-third interest in the purchasing company, Huntec (70) Limited.
- Kenting Oilfield Services, the new name for Canadian Well Services and Tank, was reorganized and three unprofitable segments were discontinued.
- Kenting Oilwell Drilling was integrated in field operations more closely with Petrolia Oilwell Drilling.
- The Kenwell Engineering Division was sold.
- A Data Sales department was established, in the Head Office, to co-ordinate sales from various Quests.
- Several new appointments were made in Divisional managements.

Share Offering

A share rights offering in March 1970 resulted in about $800,000 in cash being placed in the treasury. These funds assisted the Company in overcoming a financial load which emerged from the Offshore Division difficulties.

Corporate Changes

At the annual meeting in April 1970 four new directors were elected, replacing directors who resigned. The Board welcomes as new directors P. R. Sandwell of Sandwell and Company, Hon. Simon Fraser of Hambros Bank Limited, R. A. Wisener of Wisener and Partners Company Limited and S. W. Armstrong, a former major shareholder in Klondike Helicopters.

D. N. Kendall was elected Chairman of the Board and J. W. Strath President.

The Board would like to express sincere appreciation on behalf of all shareholders for the important contribution made to the Company by the directors who resigned, G. F. Coote, J. K. Farries, D. J. Fleming, J. R. Hughes, C. C. Huston, and A. F. Soutar.

The Board would also like to thank the 795 employees of Kenting who have served the Company both vigorously and loyally during the past year.

J. W. Strath

J. W. Strath
President

DRILLING

Petrolia Oilwell Drilling Division - Deep Oil and Gas Drilling

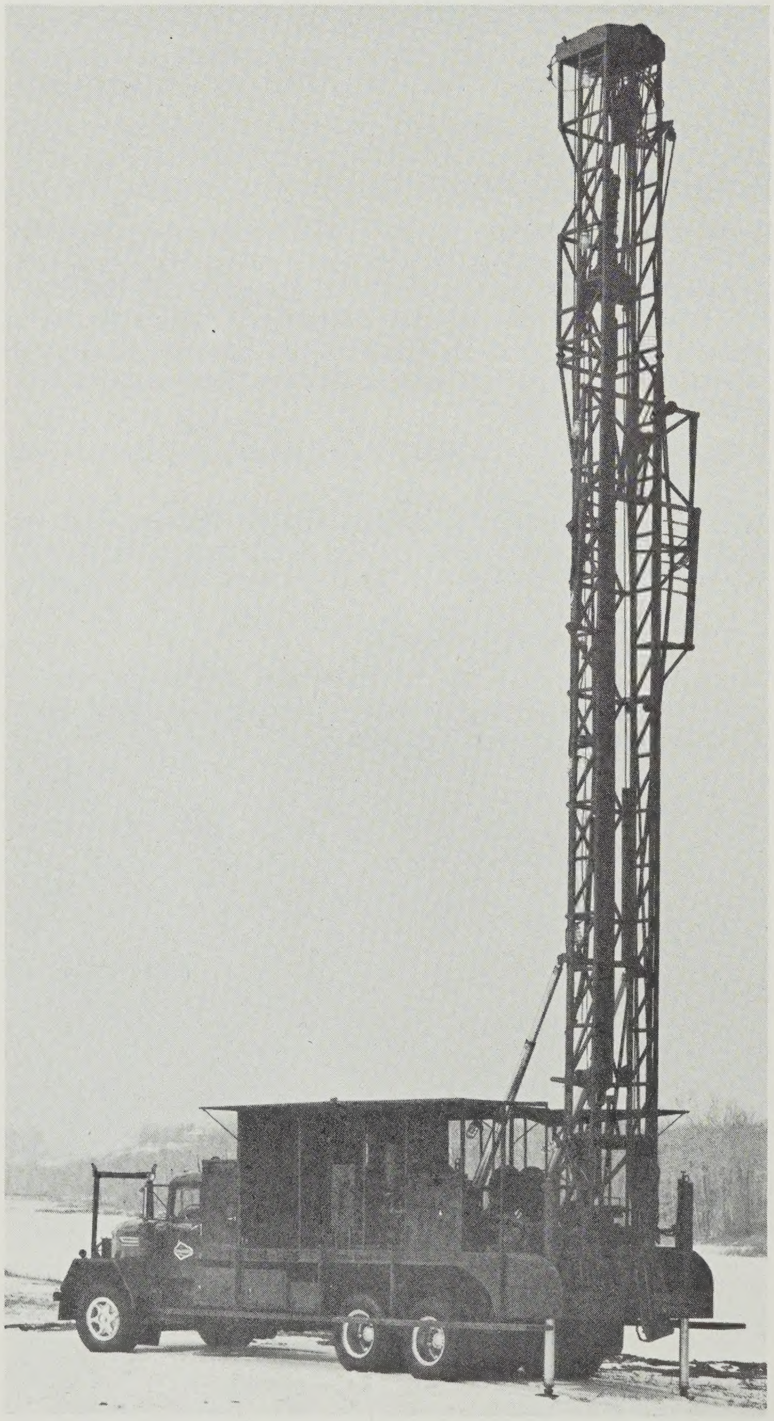
Kenting Oilwell Drilling Division - Shallow Oil and Gas Drilling

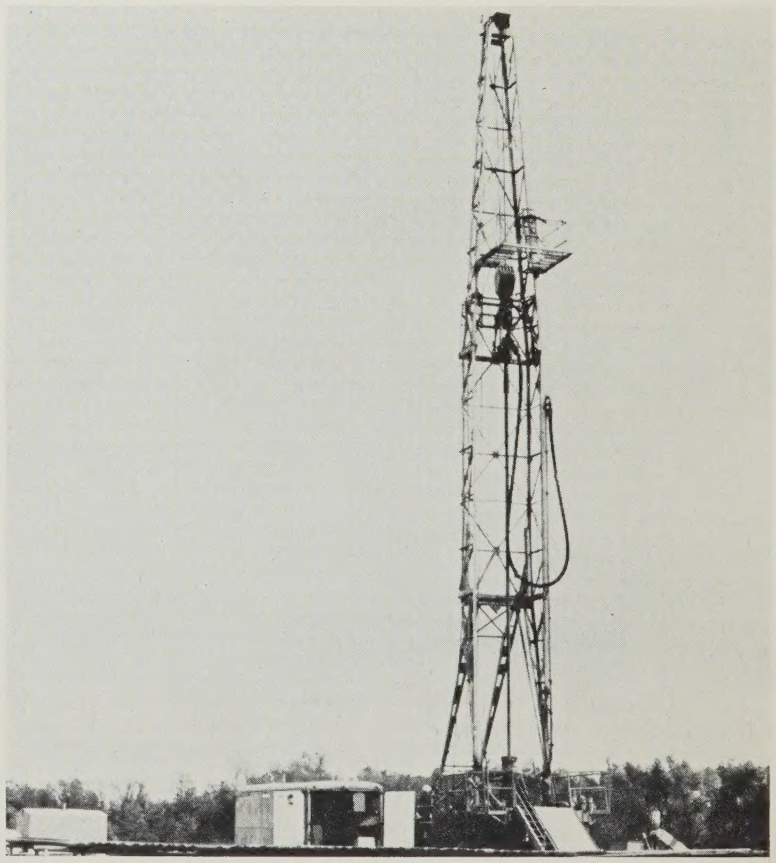
Drilling activity was slightly behind in 1970 due to a general slowdown in the Canadian petroleum industry. However, revenue and profit for the Petrolia Division compared favourably with previous years.

The two largest rigs continued to work in the Strachan-Ricinus area of Alberta while the other ten rigs drilled in Alberta, British Columbia, Saskatchewan and the Northwest Territories.

The 1971 outlook is optimistic. The Divisions negotiated a major drilling program which utilized a large proportion of the staff and equipment of both Divisions. Located in the Horn River area of the Northwest Territories, the project called for the drilling of 20 wells. The wells were successfully completed by the end of the first quarter in 1971.

In addition, the petroleum industry is forecasting a higher demand for Canadian oil and gas which could stimulate increased exploration and development activity, although this optimism is somewhat tempered by continuing petroleum industry apprehension concerning proposed tax amendments which could adversely affect the industry.





▲A Big Indian "Sure-Core" continuous coring drill.

▶Shallow drilling rig on location in Saskatchewan.

QUESTS AND EXPLORATION DATA SALES

Big Indian Drilling Division - Seismic and Mining Drilling

HELI-DRILL operations in Alaska have been greatly reduced from the unprecedented demand on the North Slope in 1969. This has been partly offset by increased activity in the Yukon, the Arctic Islands, and the Northwest Territories. Unfortunately, profit margins were lower on this work due to increased competition from tracked vehicles.

A new exploration drill, the "3-Way". was placed in operation on a project in the northern Yukon. It is expected that the drill will provide a new growth opportunity due to its versatility and mobility.

The Sure-Core process of mineral assay drilling and sampling has continued to gain recognition. The special rotary technique and tools, many developed by Big Indian, collect accurate undiluted or uncontaminated formation samples, often at lower costs than conventional methods.

A reduction in sales in the HELI-DRILL department is forecast for 1971, but an increase in mineral exploration and industrial drilling is expected. The expanded range of activities should enable the Division to improve on 1970 results.

Quests and Exploration Data Sales

During the last three years, the Company has formulated, organized, and carried out a series of Quest surveys.

– GeoQuest '68 and '69	58,000 square miles in the southern Northwest Territories
– ArcticQuest '69 and '70	175,000 square miles in the Mackenzie Delta and Beaufort Sea
– PolarQuest '70 and '71	350,000 square miles in the Arctic Islands and inter-island waterways
– BaffinQuest '71	266,000 square miles in Baffin Bay and Davis Strait

The Federal Government requires that exploration work be carried out on all lands under permit from them. The minimum required to be spent starts at 5c per acre during the first 18 months and escalates upwards to 50c per acre per year over the term of the permits. The expenditures for the purchase of Quest data by permittees qualifies for satisfaction of these commitments.

Each Quest has been designed to provide regional exploration data to subscribers at a fraction of their total cost. Also, in order to gain the greatest possible value, each Quest is composed of multi-discipline projects which are sold independently or as a total package. The data is used by petroleum exploration companies to locate targets within general areas for detailed exploration and drilling. In many cases the Quest-mobilized crews are used to carry out this work under private contract.

PolarQuest country.

The Quest programs have utilized the services of a number of Kenting divisions. The opportunity of combined operations and close co-ordination has contributed materially to the growing success of the Quests and development of Kenting expertise.

GeoQuest, conceived in 1968, had no precedent to determine the most effective financing and management formula for implementing a program so complex and original. At that time, the petroleum industry was beginning to focus its attention in Canada's North. Oil company subscriptions underwrote 75% of the cost of the program; Kenting financed the remaining 25% in anticipation of a northern trend in exploration expenditures.

With the subsequent Prudhoe Bay oil discovery, exploration interest leapfrogged the GeoQuest area to the Arctic North Slope. Kenting adjusted to the new situation and developed the ArcticQuest project in 1969 and the PolarQuest project in 1970. With the background of GeoQuest and the increased interest in the north, the Company was able to reduce its share of the initial financing by obtaining greater percentage customer contributions.

Since most of the data acquired in Quests is proprietory to the Company, Kenting has accumulated a library of geophysical and geological data which would cost the industry in excess of $4,000,000 to duplicate. With the completion of BaffinQuest, the Company will own comprehensive exploration data extending 2,500 miles from Alaska through Canada's entire Arctic and southward to Labrador, and from Norman Wells in the Northwest Territories to Alberta.

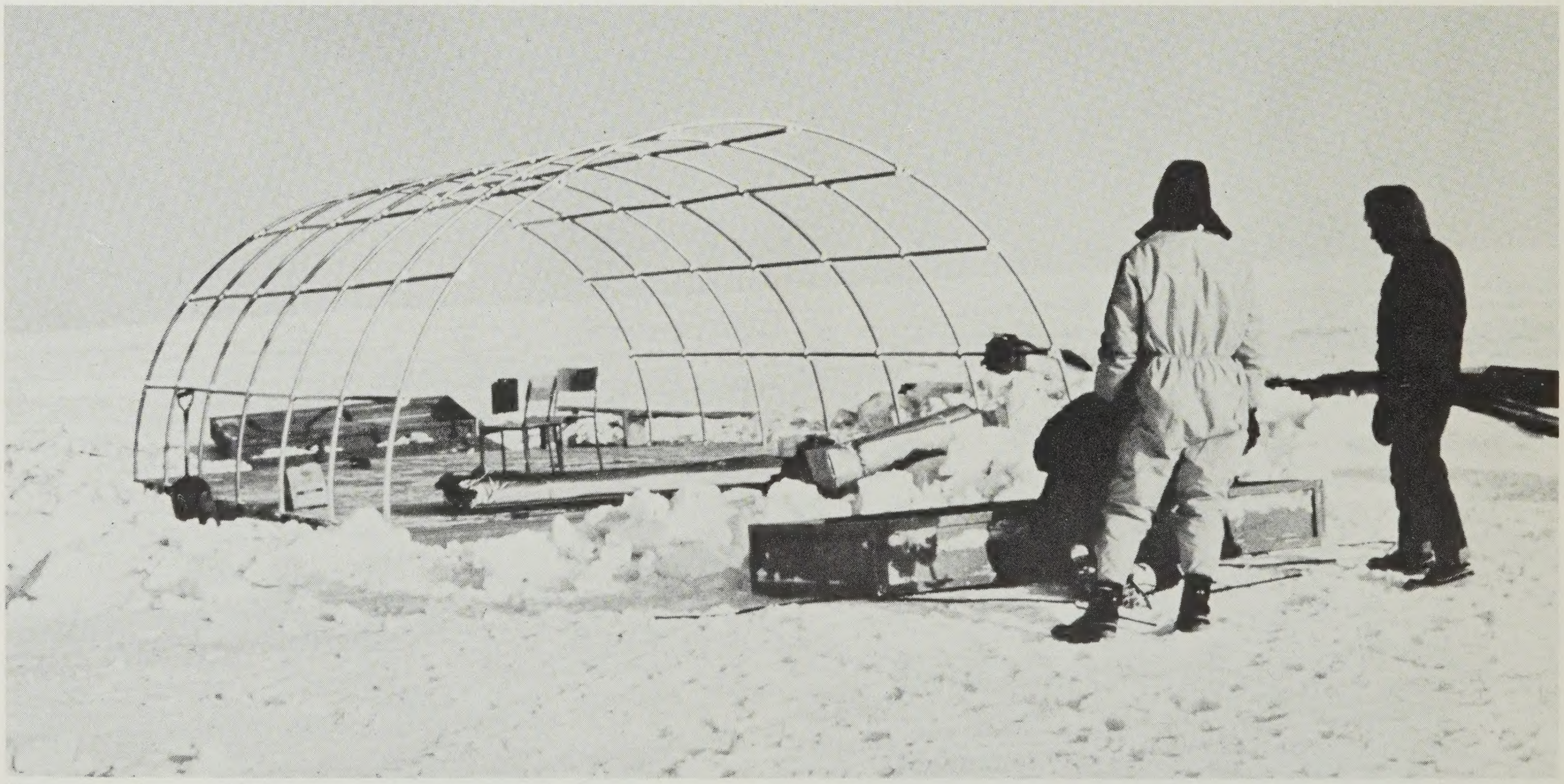
These data are fully paid for through customer and Kenting contributions and carry no value on the books of the Company. They will be resold from time to time in the future. Since the additional sales cannot be used for work credit purposes beyond the total investment by industry and Kenting, it cannot be expected that future sales will approach the volumes of the past.

As oil and gas discoveries are made however, data in the region of new discoveries will take on enhanced value. On these, and other special occasions, Kenting will be in a position to increase its earnings through repeat sales of the data. Although more than 70 companies have purchased Quest data, few have purchased the entire coverage available.

PolarQuest '70

More than 30 companies participated in one or more of the surveys included in PolarQuest '70. Fifteen companies participated in a marine seismic survey in the Northwest Passage. This unique program, successfully completed during the summer months by the Kenting Petroleum Geophysics Division, was the first of its kind in the ice-infested Arctic waters. The project used the ice strengthened M.V. Theron , which reached 76 degrees north, and west as far as Melville Island. This project acquired over 2,000 miles of usable marine seismic data.

In addition, 350 miles of marine seismic coverage was completed in the Beaufort Sea. Subscriptions for these programs came from 15 companies. A marine seismic



"Home" during gravity ice survey on King Christian Island.

survey planned off Prudhoe Bay was abandoned because of impossible ice conditions.

An aeromagnetic survey in the eastern Arctic Islands obtained 40,000 line miles out of the 57,000 line miles contracted; the remainder to be completed in 1971.

PolarQuest '71

Late in 1970 the Company introduced PolarQuest '71. The initial subscription at closing date of December 18th by 22 companies was in excess of $2 million for 15 projects. At least four Kenting divisions will be employed during the 1971 summer season in implementing the program, the major component being two marine seismic ships being operated by Kenting Petroleum Geophysics Division.

BaffinQuest

During the early part of 1971 the Company designed and offered for participation a marine survey in the Eastern Arctic, offshore Baffin Island. At the time of this report this Quest was in the final negotiation stages with several potential participants.

GEOPHYSICAL

Kenting's four Earth Sciences Divisions have had in general a satisfactory year considering business conditions.

Kenting Earth Sciences (Western) Division - Mining and Petroleum Geophysical Surveys

During the year the Division produced a total of 9,000 gravity observations, mainly in the Arctic Islands. During this work 2,000 helicopter hours were flown by the Klondike Division.

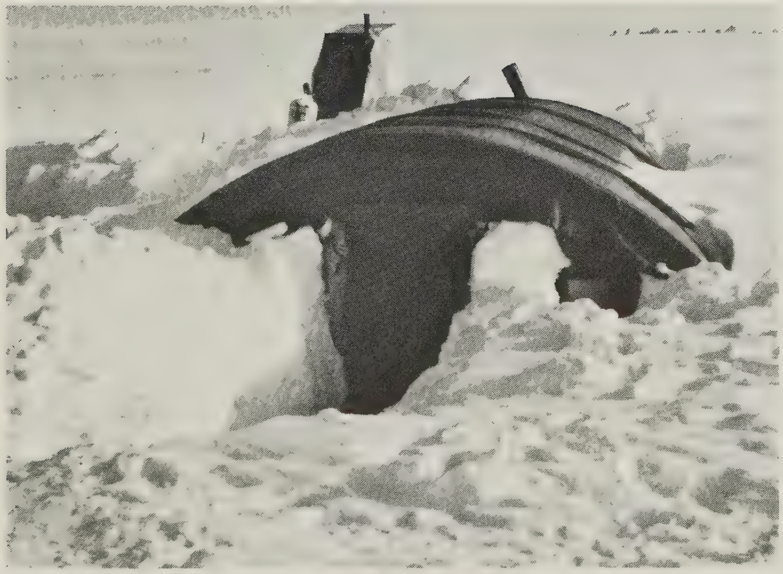
Gravity observations were also completed in the Gran Chaco area of Paraguay.

The Division carried out induced polarization and magnetometer surveys for the mineral industry in British Columbia.

Experimental work was completed on hydrogeological problems which yielded promising results and may develop into a field endeavour in the future. Also, as a result of operations research completed last year, the Division anticipates a new market for geophysical exploration for coal in Alberta and British Columbia.

Kenting Earth Sciences (Eastern) Division-Mining Geophysical Surveys

The Division was restructured during the year and moved its offices into central Toronto for better access to the mining industry. The Division has been actively pursuing



▲Crew quarters on the Polar ice.

▶Geophysical data is wrested from the arctic.

contracts in ground and marine geophysics, geology and geochemistry.

The Division obtained, from the Canadian International Development Agency, a photogeological interpretation contract in the Federal Republic of Cameroun. The program, valued at $250,000, requires a correlation of airborne magnetometer data with photogeology, an overall assessment of mineral potential, and recommendations for future detailed work.

Mineral exploration projects in Central America, valued at $250,000, are currently in the follow-up stages of the geochemical reconnaissance program and will continue into 1971.

Kenting Petroleum Geophysics Division - Petroleum Seismograph Surveys

The utilization of a seismic system aboard the ice-strengthened vessel M/V Theron in Operation PolarQuest was successfully completed in 1970. The system was designed by Kenting Petroleum Geophysics to record data in ice cluttered waters and was a result of the Kenting feasibility study completed during the S.S. Manhattan's voyage in 1969.

The Division's land crews successfully conducted reflection seismograph surveys in northeastern British Columbia and on the Tuktoyaktuk Peninsula of the Northwest Territories. Actual recording extended beyond the shores of the Peninsula onto the ice of Russell Inlet and Liverpool Bay.

In 1971, the Division will be involved with a second marine geophysical survey in the Northwest Passage using two ice strengthened ships, the M/V Theron and the M/V Theta. As a result of the experience gained in the 1970 operations, considerably more sophisticated recording equipment will be used during the program.

The Division, with its upgraded vehicular and recording equipment, is expecting to obtain a satisfactory percentage of the volume of land work being conducted in Canada. However, it is anticipated that overall industry volume will be down from previous years.

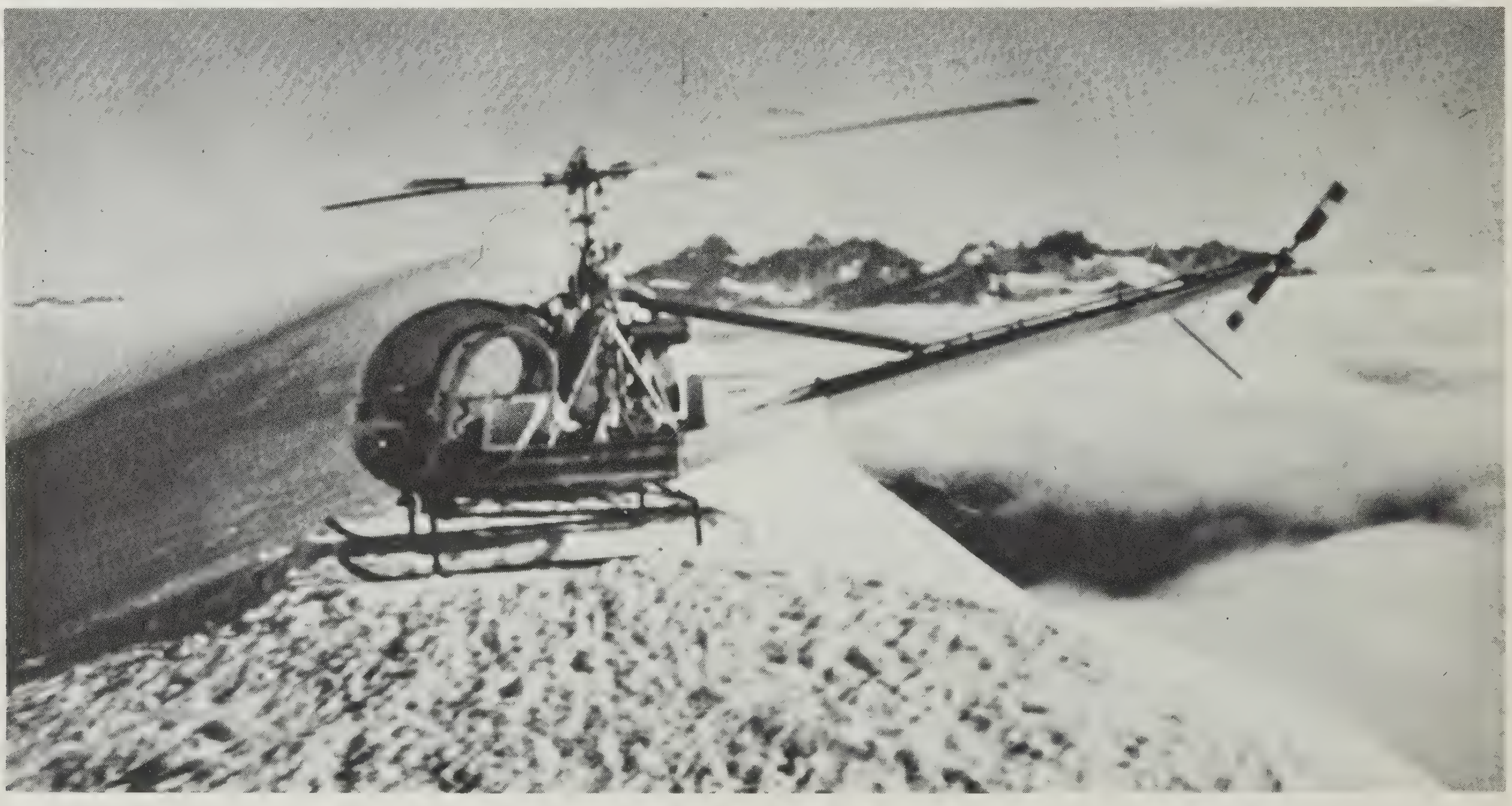
KenQuest Exploration (Formerly Pallister & Associates)

A great proportion of the detailed planning and project design, required on all Quest programs, is done by this Division prior to commencement of the field operations. In many instances, the subsequent final interpretation of the field data is carried out by the Division's professional staff.

The design and management of the Quests, together with the interpretation of the data, kept the Division profitably busy throughout the year.

With the anticipated volume of more sales to be generated in PolarQuest '71 and BaffinQuest, along with work still to be done on past Quests, it is expected that the Division will have another successful year in 1971.

▼Difficult terrain now reached with ease.



AIR TRANSPORTATION AND SURVEY

Klondike Helicopters Division

The Division has continued to perform well with a present fleet of 26 machines; 16 piston and 10 jets. During the year the upgrading of the fleet continued; 4 piston engine machines were disposed of and 3 turbine engine machines were acquired.

Flying activity for the year included seismic operations on the Mackenzie King Island, transportation for ice surveys in the Mackenzie Basin, pipeline surveys in the Mackenzie River Valley, gravity surveys in conjunction with Kenting Earth Sciences (Western) in the Arctic Islands, forest firefighting in Wood Buffalo National Park, and flying mineral surveys throughout Western Canada and the Territories.

Operations in Guyana ceased in February. An office was opened, in conjunction with other Kenting Divisions, in Vancouver to cater to the mineral industry.

The demand for helicopter services will probably be somewhat softer during 1971 due to current trends in the oil, natural gas and mineral industry and increased competition.

Kenting Aviation Division

The activity of this Division reflected the economic downturn; especially in the utilization of the jet aircraft.

The two DC-4 aircraft, which are under contract to the Ministry of Transport, in addition to the normal ice reconnaissance flying, again provided tactical support for the S.S. Manhattan.

Water bombers were flown for fighting forest fires in Chile as well as in the Provinces of Ontario, Saskatchewan and Alberta. It was a Kenting Canso water bomber that provided the needed protection when our famous whooping cranes' nesting grounds were in danger of being destroyed by fire in Wood Buffalo National Park.

Aerial survey aircraft were operated across Canada, including the high Arctic, throughout the year.

In 1971 the Division will continue to concentrate on sales in the specialty flying facet of its business.

OTHER SERVICES

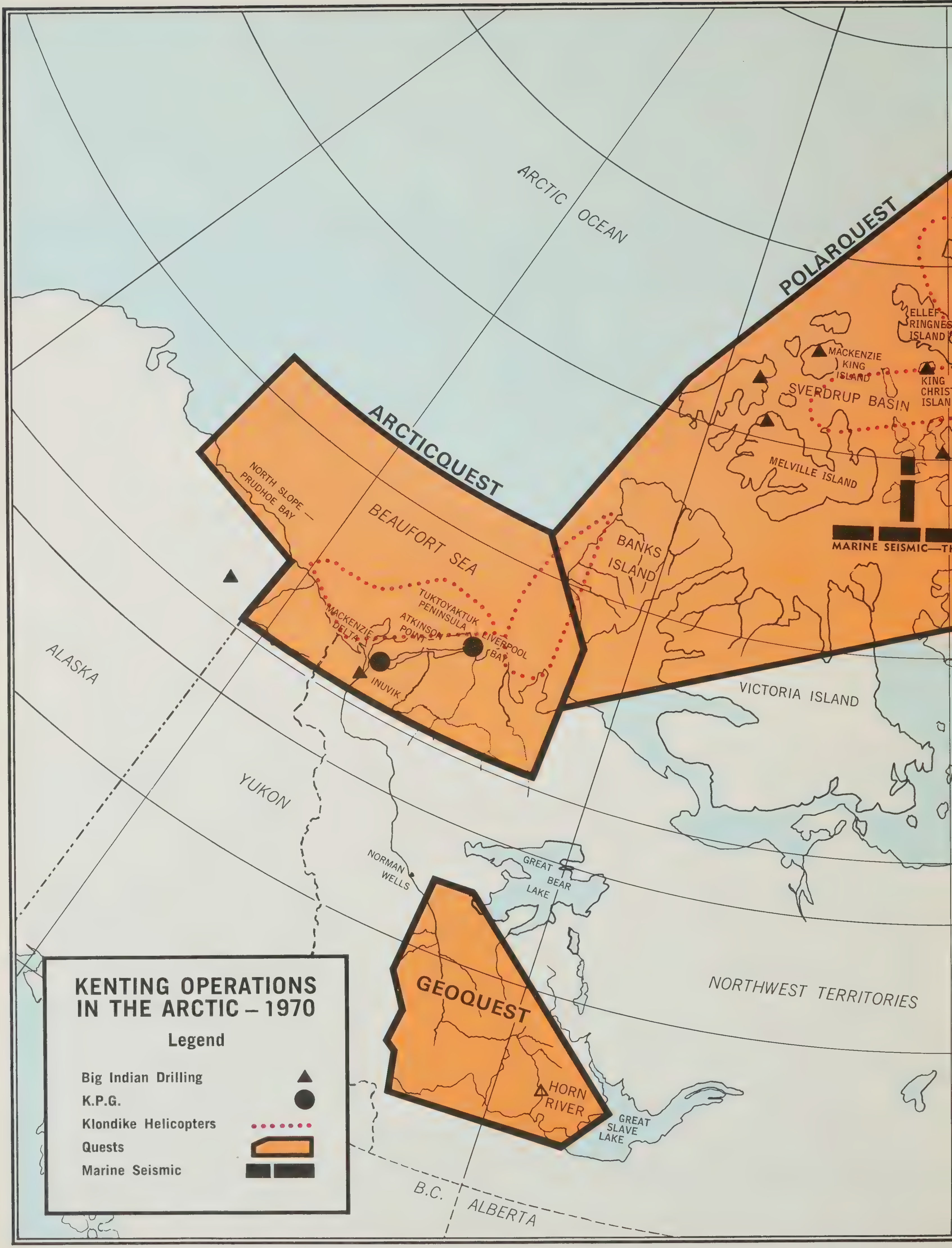
Kenting Oilfield Services Division

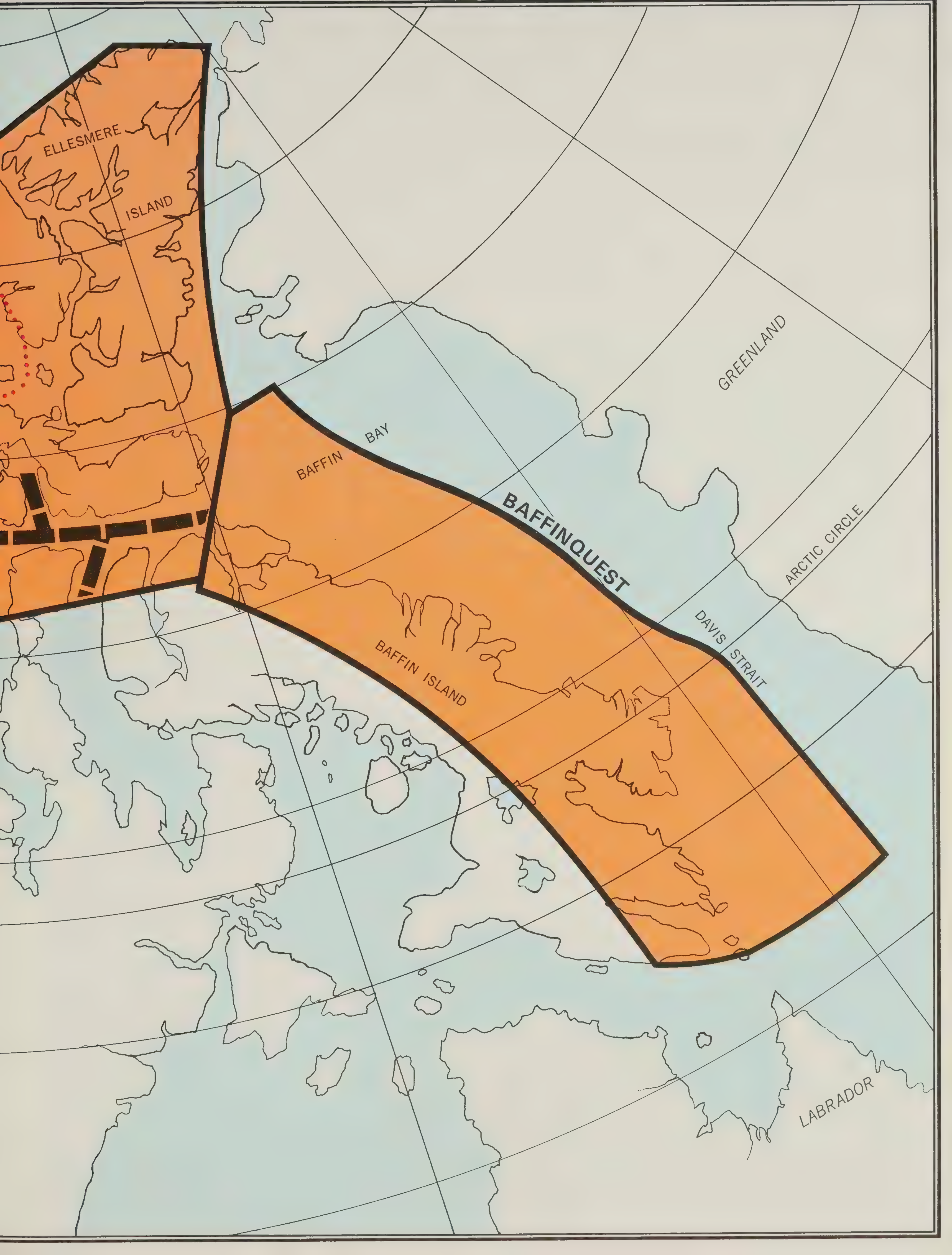
Sales volumes for 1970 were lower than forecast due to economizing by oil companies. Oilfield construction was cut with the result that bidding was more intensive for projects available.

During the year several marginal operations were discontinued and the Division continued to make changes to increase efficiency and to eliminate duplication. These adjustments were made late in the year and the benefits of these changes will not be realized until 1971.

Looking ahead, the Division sees a potential greater than that in 1970 based on the increased gas and crude prices and the new exports available to Canada.

Nipiski Field tank battery built and operated by Kenting.


KENTING OPERATIONS IN THE ARCTIC – 1970
Legend
Big Indian Drilling
K.P.G.
Klondike Helicopters
Quests
Marine Seismic
ARCTIC OCEAN
POLARQUEST
ARCTICQUEST
GEOQUEST
BEAUFORT SEA
NORTH SLOPE — PRUDHOE BAY
MACKENZIE DELTA
TUKTOYAKTUK PENINSULA
ATKINSON POINT
LIVERPOOL BAY
INUVIK
BANKS ISLAND
MELVILLE ISLAND
SVERDRUP BASIN
MACKENZIE KING ISLAND
ELLEF RINGNES ISLAND
VICTORIA ISLAND
MARINE SEISMIC
ALASKA
YUKON
NORMAN WELLS
GREAT BEAR LAKE
NORTHWEST TERRITORIES
HORN RIVER
GREAT SLAVE LAKE
B.C.
ALBERTA



ELLESMERE
ISLAND
GREENLAND
BAFFIN
BAY
BAFFINQUEST
ARCTIC CIRCLE
DAVIS
STRAIT
BAFFIN ISLAND
LABRADOR

KENTING LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	As at December 31 1970	1969
CURRENT		
Cash	$ 289,339	$ 706,230
Temporary investments (Note 2)	1,506,064	746,803
Accounts receivable	3,046,508	4,433,185
Notes receivable	115,000	130,000
Inventories (Note 3)	456,108	1,242,969
Prepaid expenses	192,565	173,312
	5,605,584	7,432,499
INVESTMENTS IN OTHER COMPANIES (Note 13)	492,161	35,647
PROPERTY AND EQUIPMENT, at cost (Notes 4 and 5)	14,404,334	14,960,843
Less—Accumulated depreciation and depletion	5,918,163	4,992,747
	8,486,171	9,968,096
DEFERRED CHARGES, at net cost less amortization (Note 13)		
Research and engineering	—	270,882
Other	32,824	35,992
	32,824	306,874
GOODWILL—Unamortized cost of investment in subsidiaries in excess of book value at date of acquisition (Note 6)	203,006	203,006
OTHER ASSETS, at cost	18,206	22,676
	$14,837,952	$17,968,798

Approved on behalf of the Board:

J. W. STRATH, Director

G. D. ROSS, Director

CONSOLIDATED BALANCE SHEET

LIABILITIES

	As at December 31 1970	1969
CURRENT		
Bank advances, secured (Note 7)	$ 732,342	$ 984,585
Accounts payable and accrued	3,199,138	3,658,537
Notes payable, secured by equipment	99,892	235,998
Loan from director	—	100,000
Income taxes payable	29,649	98,898
Long term debt due within one year	1,436,538	2,539,293
	5,497,559	7,617,311
Current portion of deferred income taxes	7,650	55,703
Provision for Offshore Division costs (Note 5)	360,000	—
	5,865,209	7,673,014
LONG TERM DEBT (Note 8)	2,903,138	4,049,251
DEFERRED INCOME TAXES (Note 9)	1,643,053	1,945,599
	10,411,400	13,667,864
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Notes 10 and 11)		
128,555 6% cumulative redeemable convertible Class A preferred shares of a par value of $12.50 each (Authorized—142,000 shares)	1,606,938	1,775,000
12,000 6% cumulative redeemable convertible Class B preferred shares of a par value of $30.00 each (Authorized—12,000 shares)	360,000	360,000
9,000 6% cumulative redeemable convertible Class C preferred shares first series of a par value of $33.50 each (Authorized—150,000 Class C preferred shares, issuable in series)	301,500	301,500
407,091 common shares of a par value of 50c each (Authorized—1,000,000 shares)	203,545	162,896
PAID IN SURPLUS (Note 10)	948,501	—
RETAINED EARNINGS (Note 11)	1,006,068	1,701,538
	4,426,552	4,300,934
COMMITMENTS AND CONTINGENT LIABILITIES (Note 12)		
	$14,837,952	$17,968,798

KENTING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	For the year ended December 31	
	1970	1969
Revenue	$20,821,293	$21,418,978
Operating costs	16,163,295	16,508,250
Sales, administration and general expenses	2,565,507	2,673,629
Interest on long term debt	463,167	501,268
Provision for depreciation, depletion and amortization (Notes 4 and 5)	2,115,710	1,046,872
Loss (gain) on disposal of property and equipment	16,035	(10,358)
	21,323,714	20,719,661
Operating income (loss)	(502,421)	699,317
Recovery of (provision for) income taxes (Note 9)		
Current	40,229	(28,695)
Deferred	121,465	(449,555)
	161,694	(478,250)
Income (loss) before extraordinary items	(340,727)	221,067
Extraordinary items (Notes 5 and 13)	(354,743)	422,254
Net income (loss) for year	$ (695,470)	$ 643,321
Earnings (loss) per share (Note 14)		
Income (loss) before extraordinary items	$(1.23)	$0.23
Net income (loss)	$(2.14)	$1.54

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	For the year ended December 31	
	1970	1969
Balance, beginning of year	$ 1,701,538	$ 1,221,659
Add (Deduct)—Net income (loss) for year	(695,470)	643,321
	1,006,068	1,864,980
Less—Dividends paid (Note 11)		
Class A Preferred	—	53,250
Class B Preferred	—	10,800
	—	64,050
Charge with respect to company acquired in 1968	—	99,392
	—	163,442
Balance, end of year	$ 1,006,068	$ 1,701,538

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	For the year ended December 31	
	1970	1969
Source of funds		
Revenue	$20,821,293	$21,418,978
Less—Operating costs, sales, administration and general expenses, long term debt interest and current taxes	19,151,740	19,711,842
Funds from operations	1,669,553	1,707,136
Long term borrowing	171,509	3,133,060
Proceeds from property and equipment disposals	524,873	337,014
Proceeds from sale of subsidiary company and oil and gas properties	—	385,500
Disposal and reclassification of investments	—	705,708
Sale of common shares for cash	821,088	69,388
Other	381	47,131
Deferred receivable	—	393,757
	$ 3,187,404	$ 6,778,694
Application of funds		
Additions to property and equipment	$ 1,124,251	$ 4,917,559
Deferred charges	88,068	137,974
Dividends paid	—	64,050
Decrease in long term debt	1,317,622	2,400,645
Investment in subsidiaries	—	218,877
Portion of investment in purchaser of instrument division represented by inventories and incidental costs	274,568	—
Production bank loan	—	393,757
Disposal and write-down of temporary investments	90,058	—
	2,894,567	8,132,862
Increase (Decrease) in working capital, excluding current portion of deferred income taxes and provision for Offshore Division costs	292,837	(1,354,168)
Working capital (deficiency of working capital) beginning of year	(184,812)	1,169,356
Working capital (deficiency of working capital) end of year	$ 108,025	$ (184,812)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1970

NOTE 1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Kenting Limited and its subsidiaries all of which are wholly owned (the "Company"). For comparative purposes certain 1969 accounts have been reclassified.

NOTE 2. TEMPORARY INVESTMENTS:

Bank deposit receipts	$ 1,355,000
Other, at estimated realizable value	151,064
	$ 1,506,064

NOTE 3. INVENTORIES:

		1970	1969
Materials and supplies, at cost		$ 772,524	$ 854,389
Work and contracts in progress, billings less costs incurred to date	(i)	(316,416)	228,269
Work in process, at cost		—	55,022
Finished goods, at lower of cost or net realizable value		—	105,289
		$ 456,108	$ 1,242,969
(i) Costs incurred		$ 834,620	$ 1,740,991
Contract billings		1,151,036	1,512,722
		$ (316,416)	$ 228,269

The Company has retained proprietory and sales commission rights to technical data relating to completed geophysical and geological appraisal projects in the Canadian North (Geoquest, Arcticquest, Polarquest '70), subject to payment of varying portions of sales proceeds to companies which provided services for the projects. In accordance with the Company's accounting policy the costs of such completed projects have been written off.

NOTE 4. PROPERTY AND EQUIPMENT:

	1970	1969
Aircraft and helicopter divisions	$ 4,373,461	$ 4,384,106
Drilling and offshore divisions (Note 5)	8,008,878	7,983,780
Seismic and instrument divisions	1,198,653	1,754,207
Oilfield construction division	781,993	772,610
Oil and gas properties	41,349	66,140
	14,404,334	14,960,843
Less—		
Accumulated depreciation	5,918,163	4,961,165
Accumulated depletion	—	31,582
	5,918,163	4,992,747
	$ 8,486,171	$ 9,968,096

Depreciation of property and equipment is provided at rates which will amortize cost, less estimated salvage values, over the estimated service lives of the respective assets. A comprehensive review (begun in May, 1970) of economic lives, salvage values and condition of equipment has resulted in rates of depreciation being increased and some items of equipment being written down.

NOTE 5. KENTING OFFSHORE DIVISION:

The Company's offshore drilling rig was towed to Tema, Ghana, in anticipation of its beginning work under a one year contract (obtained in 1969). This contract was cancelled before the remainder of the tow was completed. With the exception of the aforementioned tow across the Atlantic Ocean, the offshore drilling rig did not operate in 1970. It is now docked at Tema.

Active negotiations for the sale or use of the vessel are currently taking place.

Costs of Offshore Division operations, including depreciation of $334,000, together with all administrative and financing costs, have been charged to expenses. These costs amounted to approximately $875,000 (1969—$540,000). A contract cancellation fee of $624,000 is included in 1970 revenue.

The offshore drilling rig is included in property and equipment at a net book value of approximately \$3,000,000; related supplies and equipment are included in inventory at a cost of approximately \$90,000.

An extraordinary charge of \$360,000, less deferred income taxes of \$180,000, has been made in order to offset future divisional costs while negotiations for the sale or use of the Offshore Drilling Division take place.

NOTE 6. GOODWILL:

In the opinion of management, there is no present indication that the balance of the intangible asset, "Goodwill", has a determinable life or existence and accordingly it has not been amortized (except to the extent of a 1968 income tax reduction of \$77,207 which resulted from carrying forward pre-acquisition losses of a subsidiary).

NOTE 7. BANK ADVANCES:

Bank advances are secured by general assignment of accounts receivable and partially secured by a fixed and floating charge debenture.

NOTE 8. LONG TERM DEBT:

		1970	1969
7½% Convertible sinking fund debentures	(i)	\$ 1,150,000	\$ 1,250,000
Term bank loans, repayable in monthly and quarterly instalments aggregating \$300,000 per annum together with interest at prime rate plus from 1½% to 2%, (secured by \$1,100,000 demand fixed and floating charge debenture over all assets)		637,500	937,500
Demand bank loan, being repaid in monthly instalments of \$50,000 together with interest at prime rate, plus 1¼%, (secured by a fixed and floating charge mortgage and debenture on certain assets including the offshore drilling rig, assignment of insurance and accounts receivable)		1,600,000	2,200,000
7% to 12¼% Term bank loans, repayable in monthly and quarterly instalments (secured by general assignment of accounts receivable, demand debenture and fixed and floating charge)		432,590	726,860
Notes, mortgages and conditional sales contracts, repayable in monthly instalments at various interest rates to 12% (secured by mortgages and retention of title to certain equipment)		96,768	355,047
Notes repayable in annual instalments to 1973 with interest rates to 7%		215,000	315,000
3% Debenture, due December 1981, but agreed to be repaid by July 1972 (unsecured)		140,000	140,000
8% Notes repayable July 1974		67,818	67,818
Advances under contracts		—	596,319
	(ii)	4,339,676	6,588,544
Less—Payments due within one year included in current liabilities		1,436,538	2,539,293
Long term debt due beyond one year		\$ 2,903,138	\$ 4,049,251

(i) 7½% Convertible sinking fund debentures Series A, due May 15, 1980, interest payable semi-annually, requiring sinking fund payments of \$100,000 annually from 1971 to 1979 inclusive. Each \$1,000 principal amount is convertible into 35 common shares to May 15, 1973 and thereafter into 29 common shares to May 15, 1978, subject to anti-dilution terms and is redeemable at a reducing premium otherwise than out of the sinking fund after May 15, 1972. Under the terms of the Trust Indenture the debentures are a direct obligation of the Company but are not secured by any mortgage, pledge or charge. Covenants contained in the debenture preclude certain transactions (including the issuance of long term debt, the payment of dividends, the sale of certain assets and the reduction of capital stock) unless specific conditions are met.

(ii) Payments due on long term debt:

1971	\$1,436,538
1972	1,341,820
1973	643,500
1974	167,818
1975	100,000
Thereafter	650,000
	\$4,339,676

NOTE 9. INCOME TAXES:

Full provision has been made for deferred income taxes without regard to possible future tax benefits (arising from loss carry-forwards) of Kenting Exploration Services Limited which, calculated on an accounting basis and assuming a 50% tax rate, amounted to approximately $400,000 at December 31, 1970.

NOTE 10. CAPITAL STOCK:

The following table outlines the changes in capital stock and paid-in surplus during the year ended December 31, 1970:

	Common Shares		Paid In	Class A Preferred Shares	
	Shares	Par Value	Surplus	Shares	Par Value
Balance, December 31, 1969	325,793	$162,896	$ —	142,000	$1,775,000
Issued:					
Under rights offering (one common share at $13.00 cash for each five common shares held)	65,536	32,768	819,200	—	—
Expenses of rights offering	—	—	(50,574)	—	—
Under warrants (at $8.50 cash per share)	2,317	1,158	18,536	—	—
In exchange for Class A preferred shares (one common share for each preferred share exchanged)	13,445	6,723	161,339	(13,445)	(168,062)
	407,091	$203,545	$948,501	128,555	$1,606,938

The following warrants and options were outstanding at December 31, 1970:

Warrants:

35,982 entitling holders to purchase one common share for each warrant at $8.50 per share at the rate of 11,982 shares to June 30, 1971 and 12,000 shares per year during the period July 1, 1971 to June 30, 1973 on a non-cumulative basis.

2,400 entitling holders to purchase one common share for each warrant at $20.00 per share during the period December 1, 1970 to November 30, 1973 at the rate of 800 shares per year on a non-cumulative basis.

Employee Options:

12,700 common shares at a price of $9.00 per share exercisable to 1975 at the rate of one fifth each year on a cumulative basis. Options for 3,700 of these common shares are held by a director who is also an officer and employee.

Preferred shares are convertible share for share into common shares as follows:

Class A to December 31, 1974, Class B to January 15, 1973 and Class C to January 15, 1974. Holders of Class B and C preferred shares are entitled to one vote per share at all shareholders' meetings. Class A, B and C preferred shares are redeemable at a premium of approximately 6% as at December 31, 1970, and thereafter at annually reducing prices which reach par value on March 1, 1982, March 15, 1981 and December 31, 1980, respectively.

The Company has reserved 240,887 common shares for the possible conversion of preferred shares, sinking fund debentures Series A and the exercise of outstanding warrants and options.

NOTE 11. DIVIDENDS:

Cumulative preferred share dividends were last paid in 1969 and are in arrears in the amount of $213,204 at December 31, 1970 ($82,140 at December 31, 1969). On April 1, 1971 holders of Class A preferred shares became entitled to receive notice of shareholders' meetings and to vote at such meetings on the basis of one vote for each Class A preferred share held. This right continues until all Class A preferred share dividend arrears are paid. Under the terms of issue of preferred shares payment of dividends, except stock dividends, on the common shares is subject to certain restrictions. In accordance with these terms the amount available for payment of dividends on common stock is not less than the retained earnings shown in the consolidated balance sheet as at December 31, 1970. Under the terms of the 7½% Convertible sinking fund debentures cash dividends may not be paid unless working capital exceeds $1,000,000 after such payment.

NOTE 12. COMMITMENTS AND CONTINGENT LIABILITIES:

To December 31, 1970 the Company had received technological development grants totalling approximately $160,000 from the Federal Government. In the event that a commercially successful product is developed, the grants are repayable.

The Company is obligated under certain equipment and premises lease agreements to pay annual rentals as follows:

1971	$674,000
1972	498,000
1973	336,000
1974	223,000
1975	187,000
Thereafter to:	
1979	41,000
1988	19,000

The leases can be renewed on various terms and most equipment leases provide for options to purchase.

A claim in the approximate amount of $150,000 has been filed against the Company in connection with an incident involving a Company employee. In the opinion of management, after consultation with counsel, no loss to the Company will result from this claim.

The Company has received notice of a possible claim against it of $100,000 in connection with an offshore rig towing contract. In the opinion of counsel, the matter can be resolved without liability for payment occurring to the Company.

The Company is contingently liable for the usual liabilities of contractors, indeterminate in amount, for completion of contracts.

NOTE 13. EXTRAORDINARY ITEMS:

		1970	1969
Gain (loss) on disposal of investments, subsidiary company and oil properties net of deferred income tax recovery of $41,129 (1969 provision—$17,094)		$ (42,229)	$448,004
Write down of investment	(i)	(132,514)	—
Depreciation adjustment, net of deferred taxes of $27,897		—	(25,750)
Provision for Offshore Division costs, net of deferred taxes (Note 5)		(180,000)	—
		$(354,743)	$422,254

(i) The Company exchanged the inventories, fixed assets and patents (research and engineering costs) of its instrument manufacturing division for preferred and common shares and a debenture of the purchaser. These securities, included in Investments in Other Companies, have been written down to their estimated present value of $457,212.

NOTE 14. EARNINGS (LOSS) PER SHARE:

The earnings (loss) per share figures are calculated using the weighted monthly average number of shares outstanding (389,921—1970; 323,044—1969) after deducting preferred share dividend requirements ($136,106—1970; $146,190—1969).

NOTE 15. REMUNERATION OF DIRECTORS AND OFFICERS:

Remuneration of directors and past directors and of officers and past officers for 1970, including amounts paid by subsidiary companies, was as follows:

	Directors		Officers		Officers who are also Directors
	Number	Amount	Number	Amount	
Kenting Limited	10	$ 13,150	8	$111,443	4
Subsidiary Companies	1	20,510	3	65,809	3
		$ 33,660		$177,252	

PRICE WATERHOUSE & CO.

Calgary 1, Alberta
February 26, 1971

except as to Note 11 as to which the date is April 1, 1971 and except as to the fourth paragraph of Note 12 as to which the date is April 19, 1971.

AUDITORS' REPORT

To the Shareholders of

KENTING LIMITED:

We have examined the consolidated balance sheet of Kenting Limited and subsidiaries as at December 31, 1970 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Kenting Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, subject to the adjustments which may result from the conclusion of negotiations for the sale or use of the offshore drilling rig as referred to in Note 5, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.

Chartered Accountants

FIVE YEAR EARNINGS SUMMARY "POOLING OF INTERESTS"

The figures shown below have been restated from those previously reported to shareholders in 1967 and 1966 by accounting for subsidiaries (Boundary Drilling Ltd., Accurate Exploration Ltd., Foothills Aviation Limited and Big Indian Drilling Co. Ltd.) acquired through share exchanges on a "pooling of interests" basis (whereby the operations have been combined with those of Kenting Limited).

Certain subsidiaries had, prior to acquisition, tax loss carry forwards available which reduced taxable income in 1966. This reduction has been shown as an extraordinary item. For presentation purposes, other accounts have also been reclassified.

The weighted average number of common shares outstanding gives effect to common shares exchanged for subsidiaries combined on the "pooling of interests" basis. Earnings or loss attributable to common shares have been determined after providing for prescribed dividends on preferred shares of $136,000 in 1970 and $146,000 annually from 1966 to 1969 inclusive. Dividends actually paid on the preferred shares were: 1967—$3,210; 1968—$126,186; 1969—$64,050.

As indicated in note 10 to the financial statements, debentures and preferred shares can be converted into common shares, and warrants, options and rights may be exercised; this may result in dilution of earnings per share in the future.

	1970	1969	1968	1967	1966
Revenue	$20,821,000	21,419,000	13,856,000	9,855,000	8,643,000
Operating costs: sales, administration and general expenses	18,728,000	19,182,000	12,095,000	7,911,000	6,785,000
Interest on long term debt	463,000	501,000	277,000	145,000	98,000
Current income taxes provided (recovered)	(40,000)	29,000	110,000	76,000	379,000
	19,151,000	19,712,000	12,482,000	8,132,000	7,262,000
Cash flow from operations	1,670,000	1,707,000	1,374,000	1,723,000	1,381,000
Depreciation, depletion and amortization	2,116,000	1,047,000	738,000	613,000	572,000
Loss (gain) on disposal of property and equipment	16,000	(11,000)	(52,000)	(56,000)	(64,000)
Deferred income taxes provided (recovered)	(121,000)	450,000	307,000	422,000	210,000
Portion of net income of pooled companies applicable to purchase	—	—	—	70,000	49,000
	2,011,000	1,486,000	993,000	1,049,000	767,000
Income (loss) before the following	(341,000)	221,000	381,000	674,000	614,000
Extraordinary items, net of applicable income taxes	(355,000)	422,000	109,000	68,000	(60,000)
Income tax reduction	—	—	—	—	250,000
	(355,000)	422,000	109,000	68,000	190,000
Net income (loss) for year	$ (696,000)	643,000	490,000	742,000	804,000
Earnings (loss) attributable to each common share (after providing for prescribed dividends on preferred shares):					
On cash flow from operations	$ 3.94	4.83	3.97	5.50	4.79
Before extraordinary items and income tax reduction	$ (1.23)	.23	.76	1.84	1.81
On net income (loss)	$ (2.14)	1.54	1.11	2.08	2.55
Weighted average number of shares outstanding	389,921	323,044	309,585	286,823	257,912

FIVE YEAR EARNINGS SUMMARY

This summary sets out earnings figures as originally issued to shareholders in the respective years. The attached "Five Year Earnings Summary—Pooling of Interests" restates earnings for subsequent subsidiary acquisitions.

	Current Year	As Previously Reported to Shareholders (Presented in Conformity with 1970)			
	1970	1969	1968	1967	1966
Revenue	$20,821,000	21,419,000	13,856,000	8,311,000	1,553,000
Operating costs; sales, administration and general expenses	18,728,000	19,182,000	12,095,000	6,563,000	1,258,000
Interest on long term debt	463,000	501,000	277,000	141,000	30,000
Provision for depreciation, depletion and amortization	2,116,000	1,047,000	738,000	535,000	199,000
Loss (gain) on disposal of property and equipment	16,000	(11,000)	(52,000)	—	—
	21,323,000	20,719,000	13,058,000	7,239,000	1,487,000
Operating income (loss)	(502,000)	700,000	798,000	1,072,000	66,000
Provision for (recovery of) income taxes					
Current	(40,000)	29,000	110,000	70,000	8,000
Deferred	(121,000)	450,000	307,000	357,000	15,000
	(161,000)	479,000	417,000	427,000	23,000
Income (loss) before extraordinary items	(341,000)	221,000	381,000	645,000	43,000
Extraordinary items, net of applicable income taxes	(355,000)	422,000	109,000	109,000	36,000
Income (loss) before the following deduction	(696,000)	643,000	490,000	754,000	79,000
Portion of net income of pooled companies applicable to purchase	—	—	—	70,000	—
Net income (loss) for the year	$ (696,000)	643,000	490,000	684,000	79,000
Weighted average number of common shares outstanding	389,921	323,044	309,585	277,823	124,411
Net income (loss) attributable to each common share (after provision for preferred share dividends in the years 1967 to 1970 inclusive)	$ (2.14)	1.54	1.11	2.00	.63
Common share dividends					
Per share	—	—	30c	30c	30c
Aggregate	$ —	—	92,612	63,997	37,324
Class A Preferred share dividends					
Per share	—	37.5c	75c	2.2c	—
Aggregate	$ —	53,250	106,500	3,210	—
Class B Preferred share dividends					
Per share	—	90c	$1.36	—	—
Aggregate	$ —	10,800	16,268	—	—
Class C Preferred share dividends					
Per share	—	—	38c	—	—
Aggregate	$ —	—	3,418	—	—

INTERIM REPORT TO THE SHAREHOLDERS

FOR THE SIX-MONTH PERIOD ENDING
JUNE 30, 1970

File

KENTING LIMITED

KENTING LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

	For the Six Months ended June 30 1970	1969
Revenue	$10,176,000	$10,237,000
Costs of operating and sales	8,277,000	8,125,000
Administration and general	1,339,000	1,449,000
Interest on long term debt	253,000	186,000
Provision for depreciation and amortization	507,000	463,000
Profit on disposal of property and equipment	(10,000)	(8,000)
	10,366,000	10,215,000
Operating profit (loss)	(190,000)	22,000
Provision for income taxes:		
Current	13,000	46,000
Deferred	64,000	192,000
Loss before extraordinary items	(267,000)	(216,000)
Profit on disposal of investments	35,000	364,000
Net income (loss) for the period	$ (232,000)	$ 148,000

The above statement is unaudited.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	For the Six Months ended June 30 1970	1969
Source of funds:		
Funds from operations	$ 294,000	$ 431,000
Long term borrowing	200,000	2,901,000
Proceeds from property and equipment disposals	411,000	99,000
Disposal of investments	35,000	449,000
Sale of common shares for cash	815,000	45,000
Provision for self-insurance	11,000	49,000
Deferred receivable	523,000	208,000
Other	–	26,000
	$ 2,289,000	$ 4,208,000
Application of funds:		
Additions to property and equipment	$ 681,000	$ 3,168,000
Deferred charges	55,000	36,000
Dividends paid	–	64,000
Decrease in term debt	744,000	1,090,000
Investment in other companies	–	29,000
Production bank loan	–	179,000
Other	2,000	–
	1,482,000	4,566,000
Increase (decrease) in working capital	807,000	(358,000)
	$ 2,289,000	$ 4,208,000

The above statement is unaudited.
See notes opposite.

NOTES TO FINANCIAL STATEMENTS

NOTE 1

Earnings (loss) attributable to each common share after providing for prescribed dividends on preferred shares of $68,000 to June 30, 1970 and $73,000 to June 30, 1969:

	For the Six Months ended June 30	
	1970	1969
Before extraordinary items . . .	(.86)	(.89)
On net income (loss)	(.77)	.23
Weighted average number of common shares outstanding . .	389,762	321,951

NOTE 2

For the purpose of improved comparability, the provision for deferred income taxes for the six months ending June 30, 1969 has been increased by $58,000.

NOTE 3

At June 30, 1969 certain Geoquest sales were being negotiated with the result that $156,000 of costs was deferred as inventory. Further significant sales did not take place and by September, 1969, all Geoquest costs were charged to income. Because of this subsequent development the results for the first half of 1969 have been restated to reflect a $156,000 increase in operating costs.

TO THE SHAREHOLDERS:

Kenting's operations for the second quarter have continued the pattern of the first quarter. Several divisions have been adversely affected by the slowdown in petroleum exploration. Operations outside the petroleum industry have compensated for that slowdown.

The company showed an operating loss of $267,000 before special items for the first six months compared to an operating loss of $216,000 before special items for the same period last year. Last year's net income of $148,000 included a profit on disposal of investments of $364,000.

Sales are approximately the same as last year at $10.2 million. Cash flow at $294,000 compares with $431,000 last year. The drop is due substantially to operating losses in the offshore division.

The company, in its efforts to centralize and become more efficient, has reduced administration and general expenses by 8% in the first half of 1970. In addition several divisions have reduced their commitments and costs.

The company's sales are running at the same level as last year because of better than expected performance by some divisions. There are several projects under way in which more than one Kenting division is involved. This confirms the faith of the Directors in bringing together several companies with related interests. The company satisfactorily weathered the economic downturn and the unfortunate series of events related to the offshore rig. The outlook for the long term remains bright.

During recent months shareholders may have noticed press comments about King Resources financial difficulties. Although Kenting has performed a large volume of services for King and its subsidiaries during the past two years, the amounts still owing by King represent only a small fraction of the total billings to King.

KENTING OFFSHORE DIVISION

During the second quarter Kenting gave an option for the purchase of the offshore rig to a subsidiary of King Resources. The option was to be effective June 1st, but was later extended to August 20th. The purchaser did not fulfill certain of its commitments and the agreement for sale was terminated by Kenting August 5th.

As a result, according to legal agreements which were signed in recent months, Kenting received a cancellation fee and other considerations. Under these agreements this fee has been offset against amounts previously advanced to Kenting by the client.

The rig is still in dock at Tema, Ghana where it has been held since repairs were completed in June. Since its availability was announced on August 5th several parties have shown interest in acquiring the unit for drilling offshore wells. The company is actively pursuing all opportunities.

All costs and interest attributable to the offshore vessel have been expensed in the first half of the year. The final disposition of the vessel, which we hope to culminate in the third quarter, along with the contract cancellation mentioned above, could materially change the impact of the Offshore division on 1970 profits.

PETROLIA DRILLING DIVISION

This division's performance has been satisfactory during the first half in the light of reduced drilling activity in the petroleum industry.

BIG INDIAN DRILLING DIVISION

Last year this division was able to capitalize on the extensive Alaska exploration activity and was highly successful in doing so. This year Alaska activity has greatly reduced, nevertheless Big Indian has had a good first half by employing its equipment and services in other areas, notably northern Canada.

KLONDIKE HELICOPTER DIVISION

Both sales and profits are up for the first half primarily because the company has been successful in locating offseason utilization.

KENTING AVIATION DIVISION

Because of the economic downturn, revenues from Jet hire have been adversely affected. This has been counterbalanced by excellent performance from water bombing and other aircraft services.

KENTING OILWELL DRILLING DIVISION

This shallow well drilling division has suffered a decline in activity due to reduced drilling by the petroleum industry.

KENTING PETROLEUM GEOPHYSICS

The cutting back of exploration budgets by oil companies has also hit this division. Despite a substantial drop in volume the division has managed a small profit by cutting expenditures.

KENTING EARTH SCIENCES

The Western division is very active in conducting petroleum geophysical programs. The Eastern division has just been awarded a large Canadian International Development Agency program.

PALLISTER CONSULTING DIVISION

The division has undertaken management of a unique ice seismic project in Arctic waters, which is 100% underwritten by the clients and should be profitable to Kenting.

CANADIAN WELL SERVICES & TANK DIVISION

Economizing by oil companies due to the recession has cut into oilfield construction with the result that bidding is more intensive for the projects available. Sales and profits of this division are therefore down as forecast in previous shareholder reports.

J. W. STRATH
President

August 18, 1970